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BRIEFS AND COMMENTS

USSR-HUNGARY: Brezhnev's Visit to Budapest

Soviet President Brezhnev's trip to Budapest late this month appears largely intended to line up support for the 30th anniversary session of the Council for Economic Mutual Assistance scheduled for 26 to 28 June in Moscow. [REDACTED]

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The Soviets apparently will try to use the meeting to expand CEMA's power to deal with international organizations and nonmember countries. They also appear to be pressing for greater integration of the East European economies with the Soviet economy. [REDACTED]

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Premier Kosygin, while in Czechoslovakia on Tuesday, reportedly criticized the Czechoslovak sluggishness on coordinating the two countries' 1981-1985 economic plans. Kosygin's trip and criticism apparently are part of an effort by the USSR to coordinate its allies' policies before the CEMA session. [REDACTED]

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Brezhnev's trip could also be intended to dilute the impact that the Pope's visit to Poland in early June will have on national consciousness in Eastern Europe. Brezhnev's appearance in Hungary on the eve of the first visit of a pope to Eastern Europe will highlight the continuing dominant Soviet role in the region. If Brezhnev tried to make this point by visiting Poland, he would court certain embarrassment because of the sharp contrast in the popular receptions for him and the Pope. [REDACTED]

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USSR: Reduced Publication of Economic Data

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The USSR has further tightened restrictions on the publication of statistical materials on the economy.

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The Soviets have yet to respond to a formal request made in December 1978 by US members of a working group of the US-USSR Commercial Commission that they furnish more data.

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The Soviets have always been stingy with certain kinds of economic data. The latest decision appears to be part of a general tightening up, beginning in 1976, to omit, reclassify, or conceal data that the Soviets believe could endanger their national security or prove embarrassing.

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The resulting information gap is most serious in the trade area. Moscow traditionally has not published data on its external financial position--gold reserves and sales, for example--but prior to 1976 released fairly complete information on commodity trade. The commodity trade handbook for 1976, however, contained major statistical omissions, and the Soviets omitted more data in 1977. In particular, the Soviets have not revealed data concerning the most sensitive industrial sectors--fuels, metals, and chemicals. Western trade data can help fill the gaps to some extent, but timely data on Soviet trade with the developing countries are not available.

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Information on the domestic economy also is on the decline. The largest gaps are in basic data on the fuels sector. Furthermore, much data essential to the analysis of Soviet economic prospects in the decade ahead are no longer available. Unlike the trade data, which can eventually be obtained from Soviet trading partners, this information is rarely available through other sources.

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//As a result of the US-USSR Agreement on Cooperation in the Field of Agriculture implemented in June 1973, the Soviets until recently increased the data they provided on agriculture. They omitted major agricultural indicators in the 1977 statistical handbook released last September, however, and this year began to drag their feet on furnishing monthly agricultural information under the terms of the Agreement.

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IRAN: Economy Hobbled

The continuing government and worker intimidation of private sector management and expectations of prolonged political instability are preventing significant improvement in the Iranian economy. Many enterprises remain in a state of suspension, continuing to pay their employees and hoping that demand will eventually revive.

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Most retail and wholesale outlets are operating at 10 to 20 percent of their normal levels. Only the banking and oil sectors have shown real signs of life. Despite dissension between workers and management and Arab pressure for autonomy in the major oil-producing province of Khuzestan, oil production has been running at about 4 million barrels per day in recent weeks.

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In both public and private institutions, workers, suspicious and resentful of managers "tainted" by the old regime, are interfering with executive decisionmaking. The government has forbidden firms to fire employees and in some cases, has forced firms to increase their staffs to disguise the extent of unemployment. Some Iranian officials contend that the number of unemployed has declined to less than 1 million from the 3.5 million figure that the government cited only a few weeks ago, but available evidence does not support this.

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The expectation that political instability will persist is discouraging businessmen from contemplating further risks. Despite a new, liberal credit policy designed to encourage businesses to finance the resumption of production, businessmen are not seeking new credit, rebuilding depleted stocks, or making new investments. Moreover, a renewal of the strike by several thousand workers at the Persian Gulf port of Khorramshahr and electricity shortages--which will become more critical in the summer--portend new problems in industry's attempts to get moving.

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USSR-CHINA: Soviets Prepare "Positive" Response on Talks

According to Soviet Ambassador to China Shcherbakov, the USSR intends to reply positively to China's latest proposal to begin talks aimed at improved relations. He reportedly told [redacted] that the Soviet response will come before the US-Soviet summit in mid-June. [redacted]

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Shcherbakov told [redacted] that the Chinese note of 5 May was more favorable in tone than previous Chinese proposals. He stated that the Soviet Government was carefully considering how seriously to take China's call for talks on improvements in trade, scientific cooperation, and cultural relations. The Soviet Ambassador said that the USSR was consulting with "other friendly countries, including Vietnam" regarding the Chinese proposals and observed that renewed Sino-Soviet negotiations could affect the Chinese-Vietnamese talks. [redacted]

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Heading toward summit-level bargaining with the US, the Soviets may sense that the time is right to suggest in conspicuous fashion that they can improve relations with China. There is no indication, however, that the Soviets and Chinese have resolved their fundamental problems or that either side has altered its basic stance on major issues. While still leery of China's motives, Moscow may now decide to accept--at least tentatively--Beijing's newly declared willingness to separate fresh talks from the deadlock over border issues that has stymied Moscow's past efforts to deal with China. [redacted]

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[redacted] asserts that the Vietnamese are "extremely upset" by Moscow's favorable assessment of the Chinese offer. Moscow must decide how much it is willing to sacrifice in relations with Hanoi while pursuing new contacts with Beijing. The Soviets are no doubt probing for any change in China's hard line on Indochina. [redacted]

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PORTUGAL: Amnesty Bill Veto

President Eanes' veto of a controversial amnesty bill on Tuesday could initiate a new round of conflict between the President and the political parties. Should the legislature override the veto, as seems likely, the amnesty could have a destabilizing effect on the military.

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Eanes vetoed the amnesty bill--passed by the Socialists and Communists in the legislature last month--only hours after the military's Revolutionary Council, which he chairs as armed forces chief, had found the bill constitutional. The Socialist-sponsored proposal would reinstate a number of officers--most of whom are leftists--convicted of military and political crimes committed during two military uprisings in 1975.

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Eanes views the bill as a personal affront. He was instrumental in bringing many of these officers to justice and has since sought to end the military's involvement in politics. Some of the officers who would be eligible for amnesty are radical leftists and advocate military intervention in politics.

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The President and the political parties are already locked in negotiations concerning the fate of Prime Minister Mota Pinto's government--expected to fall soon after the budget vote scheduled for next week. Eanes will try to persuade the Socialists to reverse their support for the amnesty bill. Since their national congress earlier this year, however, the Socialists have been feeling more combative and are looking for ways to damage Eanes' prestige. Eanes is therefore not likely to succeed.

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THAILAND: Negotiations for New Government

Prime Minister Kriangsak's difficulties in forming a new government are symptomatic of the problems he faces in operating in a more representative political system. A widely held view that the new government will be weak makes many candidates reluctant to participate.

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Kriangsak has no party affiliation, but he won renomination as Prime Minister because he controls the appointed senate and has additional support in the lower house. He hopes to announce his cabinet tomorrow--more than a month after the national election--but may be able to do so only by accepting second choices for some posts. He reportedly has been unable to enlist prominent individuals for several key economic ministries.

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The primary holdout appears to be a leading member of the Social Action Party, which won a plurality in the lower house. The leader of this party, former Prime Minister Khukrit Pramot, would be the likely candidate to form a new government should Kriangsak fall. Khukrit is unwilling to diminish his own prospects by helping Kriangsak.

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YUGOSLAVIA: Dolanc Promotion

Stane Dolanc, Yugoslav party Presidium member, will take over Edvard Kardelj's responsibilities as Yugoslavia's chief ideologue on policy matters, according to an interview with a Yugoslav party Central Committee member carried by the Italian paper *Corriere Della Sera*. The interview confirms earlier indications that Dolanc resigned as party secretary in order to take a more important post. The new post--which was left vacant by Kardelj's death in February--gives Dolanc a key voice in domestic affairs and an opportunity to play a greater role in foreign policy. Before his departure for Moscow on 16 May, he was also given a boost in prestige when he received the "Hero of Socialist Labor" award--Yugoslavia's highest peacetime award for a non-chief-of-state. [REDACTED]

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IRAN: Anti-American Demonstrations

Groups spanning the political spectrum will participate in marches today and tomorrow in Tehran to protest the recent US Senate resolution condemning executions in Iran. Senior religious leaders have not yet issued their usual call that the marches, which will pass by the US Embassy, be peaceful. Although the US Charge believes the government does not want violence, extremists could take advantage of the situation to attack buildings occupied by the US mission. The Embassy is taking precautionary measures and limiting the number of personnel on duty during the critical hours to ensure their safety. [REDACTED]

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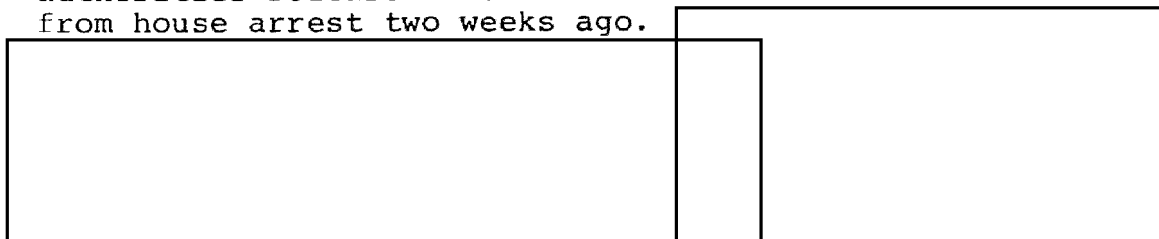
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EAST GERMANY: Dissident Policy

East Germany is maintaining pressure on dissidents, but there are some signs that it is having second thoughts about the efficacy of tough measures. The East German authorities recently fined dissident author Stefan Heym the equivalent of \$4,500 for publishing a novel in the West without government approval. The East Germans, however, could have sentenced Heym to 10 years' imprisonment. In an earlier signal of a trend toward moderation, authorities released dissident scientist Robert Havemann from house arrest two weeks ago.

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USSR-IRAQ: Soviet Visit

Oleg Grineyvskiy, the head of the Near East Department of the Soviet Foreign Ministry, arrived in Baghdad on Monday to begin talks aimed at easing the strains in Soviet-Iraqi relations. Iraq has been apprehensive over perceived Soviet advances in the Middle East, and the USSR is unhappy over the current repression of the Iraqi Communist Party.

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SPECIAL ANALYSIS

INTERNATIONAL: Increased Risk of Economic Slowdown

//The economic outlook for the major developed countries is less favorable than it was a few months ago and will darken considerably if oil prices continue to rise rapidly. Higher inflation, partly caused by rising oil prices, will reduce growth by cutting into consumer purchasing power gains and by making business more cautious about investment. It already has induced some governments to tighten fiscal and monetary policies, actions that will add to the likelihood of a slowdown.//

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//Most economic forecasters appear to assume that world oil prices--which have risen 24 percent so far this year--will rise by only about another 10 percent this year and an additional 10 percent in 1980. The forecasters expect combined real growth in Gross National Product for the US and the six other major developed countries--Japan, West Germany, France, the UK, Italy, and Canada--in the range of 3 to 3.5 percent for 1979 and 2 to 3.25 percent for 1980. All forecasters agree that a slowdown will come first in the US; some say it has already begun.//

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//We believe oil prices could go up a great deal more than 10 percent during the rest of this year and again in 1980. The central question is whether the members of the Organization of Petroleum Exporting Countries will be willing to exceed their announced production ceilings. If the cartel members stick to the plans they have announced, OPEC output would drop from approximately 30.5 million barrels per day in the current quarter to just over 29 million next year. Under these conditions, oil prices are almost certain to continue rising sharply. On the other hand, if the members of OPEC exceed their production ceilings, prices would rise less severely, especially if the major developed countries pursued more restrictive demand management policies.//

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each additional 10-percent increase in oil prices would cause real GNP growth in the six major countries to slow by another

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0.2 to 0.3 percentage points in the first year following the price increase. Inflation would accelerate by an additional 0.3 to 0.4 percentage points. The impact would be about as large in the second and third years but would diminish rapidly thereafter.// [REDACTED]

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//Large price increases obviously will have severe economic consequences for the industrial economies. Coming on top of increases this year, an 80-percent oil price hike in 1980, for example, would have an initial impact on the US roughly similar to the quadrupling of oil prices in 1973 and 1974. The impact on the six other major countries would be smaller than from the 1973 and 1974 price hikes because these countries have reduced the amount of oil they import. The impact of price increases on this order of magnitude may well be greater

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[REDACTED]
investors, and governments to such an adverse climate.//

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[REDACTED]
//We believe that most of the six governments would tighten fiscal and monetary policies to combat the worsening inflation and payments positions resulting from a substantial oil price increase. Such a response would add to the negative pressures on real growth over the next 18 months, as it did in 1974. In the event of a very large oil price increase, tighter fiscal and monetary policies would increase the possibility that the major developed countries could slide from a slowdown into recession.// [REDACTED]

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//Italy is particularly vulnerable because of its heavy dependence on imported oil. With a public sector deficit already exceeding 13 percent of GNP and the highest inflation rate among the seven major industrial countries, the Italian Government will find it difficult to offset the recessionary impact of an oil price rise.//

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[REDACTED]
//The impact of oil prices on growth probably will hit Japan and West Germany about equally. The two governments would be constrained from taking stimulative measures because of their budget deficits, which are considerably larger relative to GNP than is the case for the US.// [REDACTED]

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//Real GNP growth probably will be least affected in France, the UK, and Canada. The French Government is likely to take stimulative fiscal measures in order to keep unemployment down before the 1981 presidential election. The initial impact of a large oil price rise on the UK will be mitigated by the continuing rise in North Sea oil production. The impact will also be slight in Canada because its energy exports and imports are in approximate balance. Nevertheless, real GNP growth in Canada and the UK will eventually suffer as the result of oil price-induced declines in real growth elsewhere and the impact of rising inflation at home.//


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